

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01 PA-01
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FM AMEMBASSY ROME
TO SECSTATE WASHDC 2675
TREASURY DEPT WASHDC
INFO AMEMBASSY BRUSSELS
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LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 8613

USEEC; USOECD

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: GOVERNMENT BEGINS WORK ON ECONOMIC PROGRAM--SLOWLY

1. SUMMARY. AT THE TWO MOST RECENT COUNCIL OF
MINISTERS' MEETINGS THE GOVERNMENT APPROVED A MEDIUM
TO LONG-TERM MEASURE TO REDUCE THE NUMBER OF ITALIANS
RECEIVING DISABILITY PENSIONS AND RAISE THE MINIMUM
REQUIRED CONTRIBUTIONS FROM VOLUNTARY CONTRIBUTORS
AND A MEASURE THAT WOULD PERMANENTLY TRANSFER TO THE
STATE A PORTION OF THE BURDEN OF HEALTH INSURANCE
PROGRAMS NOW BORNE BY FIRMS. THE BILL ON
PENSIONS IS AIMED AT REDUCING THE GROWTH IN GOVERNMENT
TRANSFER PAYMENTS, WHICH HAS BECOME PERHAPS THE KEY
FACTOR INCREASING THE GOVERNMENT BUDGET DEFICIT.
THE DRAFT-BILL ON HEALTH INSURANCE CONTRIBUTIONS IS
AIMED AT REDUCING LABOR COSTS TO FIRMS IN CERTAIN
SECTORS, AT THE EXPENSE, HOWEVER, OF INCREASING GOVERN-
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MENT EXPENDITURES AND THE GOVERNMENT BUDGET DEFICIT.
THE LATTER MAY ALSO BE SEEN AS THE GOVERNMENT'S INVITATION
TO THE UNIONS TO HOLD DOWN WAGE DEMANDS THIS FALL. HOW
THESE BILLS FARE IN PARLIAMENT IS AN IMPORTANT FIRST
TEST OF THE NEW PARLIAMENTARY MAJORITY. END SUMMARY.

2. THE PENSION MEASURE WOULD ABOLISH GROUNDS FOR

GRANTING DISABILITY PENSIONS OTHER THAN PHYSICAL INCAPACITY TO WORK. AT PRESENT DISABILITY PENSIONS MAY BE GRANTED IN CASES OF EVEN MINOR INFIRMITIES THAT REDUCE EARNING POWER, ESPECIALLY IN DEPRESSED ECONOMIC AREAS, SUCH AS THE SOUTH. ABOUT 5 MILLION ITALIANS, COMPARED TO A WORK FORCE OF ABOUT 22 MILLION AND TOTAL PENSIONERS OF ABOUT 12 MILLION RECEIVE DISABILITY PENSIONS. THE NEW MEASURE ALSO PROVIDES FOR PARTIAL DISABILITY PENSIONS THAT ARE SUBJECT TO MEDICAL CONFIRMATION EVERY THREE YEARS OF THE LOSS OF AT LEAST "TWO-THIRDS NORMAL CAPACITY" TO WORK. ITS ADOPTION WOULD MEAN THE GRADUAL PHASING OUT OF WHAT IN ITALY HAS BEEN A RATHER INFLEXIBLE SYSTEM OF UNEMPLOYMENT COMPENSATION, I.E., THE DISABILITY PENSION SYSTEM. THE DRAFT LAW WOULD ALSO INCREASE THE MINIMUM PERIOD OVER WHICH VOLUNTARY CONTRIBUTIONS HAVE TO BE MADE TO THE PENSION SYSTEM AND RAISE THE MINIMUM AGE IN ORDER TO BE ELIGIBLE FOR BENEFITS. THE FINANCIAL BENEFITS TO THE BUDGET OF THE PENSION MEASURE WILL BE REALIZED ONLY OVER TIME, SINCE IT DOES NOT GO INTO EFFECT UNTIL THE BEGINNING OF 1979 AND WOULD NOT AFFECT PERSONS NOW RECEIVING DISABILITY PENSIONS.

3. THE LABOR COST MEASURE WOULD PERMANENTLY REDUCE PAYROLL TAXES FIRMS NOW HAVE TO MAKE TO THE HEALTH INSURANCE PROGRAM FOR EACH EMPLOYEE. THE AMOUNT OF THE REDUCTION IS 5 PERCENT OF COMPENSATION SUBJECT TO SUCH TAXES FOR MALE EMPLOYEES LIMITED OFFICIAL USE

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AND 12.5 PERCENT FOR FEMALE EMPLOYEES, WITH A MINIMUM STATUTORY REDUCTION IN ABSOLUTE TERMS OF "NOT LESS THAN 24,000 LIRE (ABOUT \$30) PER EMPLOYEE PER MONTH." THIS WOULD REDUCE EMPLOYERS' LABOR COSTS BY 3.4 PERCENT FOR MALE WORKERS AND 8.5 PERCENT FOR FEMALE WORKERS. THIS RATE COULD BE ADJUSTED BY MINISTERIAL DECREE DEPENDING ON THE DYNAMICS OF WAGE INCREASES. THE SECTORS TO BENEFIT UNDER THE PROPOSED LAW ARE MINING, MANUFACTURERS, HOTELS, EXPORT-ORIENTED COMMERCIAL ENTERPRISES, AND RESTAURANTS. THESE PERMANENT REDUCTIONS WOULD GO INTO EFFECT ON JULY 1, 1978. THE GOVERNMENT PLAN TO EXTEND THE CURRENT TEMPORARY "FISCALIZATION" OF SOCIAL CONTRIBUTIONS TO END JUNE 1978. IT IS ESTIMATED THAT THE LABOR COST MEASURE WOULD REDUCE THE TOTAL WAGE BILL BY 1,250 BILLION LIRE (ABOUT \$1.4 BILLION) IN 1978. IT WOULD INCREASE GOVERNMENT OUTLAYS BY THE SAME AMOUNT IN 1978.

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COMMENT: THESE TWO MEASURES REPRESENT INITIAL
EFFORTS BY THE NEW ANDREOTTI GOVERNMENT TO ATTACK TWO
FUNDAMENTAL STRUCTURAL PROBLEMS WHICH ARE PREVENTING
ITALY FROM ACHIEVING AN "ADEQUATE" RATE OF GROWTH
CONSISTENT WITH INTERNAL AND EXTERNAL STABILITY. THEY
ALSO REPRESENT AN IMPORTANT FIRST TEST OF THE NEW
PARLIAMENTARY MAJORITY. HOW THE PENSION BILL FARES
IN PARLIAMENT IS PARTICULARLY IMPORTANT BECAUSE:
(A) IT AFFECTS PRIMARILY POTENTIAL CHRISTIAN DEMOCRATIC
VOTERS AND HENCE IT IS INTERESTING TO SEE HOW THE
POLITICAL GROUPS FORMING THE PARLIAMENTARY MAJORITY VOTE
ON IT AND (B) A PREVIOUS EFFORT (LAST FALL) TO ATTACK THE
PENSION PROBLEM WAS SCUTTLED BEFORE PARLIAMENTARY DEBATE
GOT STARTED. WHILE THE ELIMINATION OF EXCESSIVE TRANSFER
PAYMENTS THROUGH THE PENSION MECHANISM IS BASICALLY IN
THE GOVERNMENT'S PURVIEW, THE REDUCTION OF LABOR COSTS
WILL REQUIRE LABOR UNION COOPERATION. THE PERMANENT
"FISCALIZATION" OF SOCIAL COSTS INTRODUCED BY THE
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PROPOSED LEGISLATION ON HEALTH INSURANCE IS SEEN BY
THE GOVERNMENT AS A MOVE DESIGNED TO GET THE UNIONS
(AND THE EMPLOYERS) TO AGREE TO MODEST WAGE SETTLEMENTS
DURING THIS FALL'S NEGOTIATIONS. THE GOVERNMENT'S
OBJECTIVE ON LABOR COST, AS INDICATED IN ITS PROGRAM

(SEE ROME A-101), IS TO LIMIT WAGE INCREASES IN 1978
TO THOSE OF ITS MAJOR TRADING PARTNERS WITHOUT
REDUCING THE LEVEL OF REAL WAGES. DURING 1977 PER
UNIT LABOR COST IN ITALY ROSE MORE THAN TWICE AS
FAST IN OTHER COUNTRIES OF THE OECD, WHILE
REAL WAGES INCREASED BY ABOUT 7 PERCENT. GARDNER

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